

***Waqf* Accounting and The Construction of Accountability**

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Abstract

Along with the revival of *awqaf* institutions, the attention to the call for *waqf* accounting has been emerging. The new and modern *waqf* management has put greater emphasize on the principles of accountability and transparency. As part of good governance and best practices of *awqaf* institutions, accounting is believed to be able to improve the accountability and transparency of the *mutawalli*. Besides, accounting is a tool for *mutawalli* to discharge his accountability to many parties such as *wāqif*, *waqf* board, government and community in large. Studies on accounting practices in *waqf* institutions indicate there is diversity with regard to accounting and reporting of *waqf*. The phenomenon of dissimilarity of accounting practices among *awqaf* institutions could be due to the absence of accounting standards for *waqf*. Cordery and Morley (2005) assert that the uncertainty over accounting practices in charitable sectors and other not-for profit organizations is not only due to the absence of accounting standards but also because the failure to establish a generally accepted definition of accountability for that sector. This paper aims at exploring the major themes that constitute the basis of the discussion on accountability in *awqaf* institutions. In doing this, the theoretical underpinnings and the existing empirical investigations relating to *waqf* accounting and accountability are examined. Although Hisham (2006) and Ihsan (2007) agree that Shahul's proposal of dual accountability is more appropriate for *waqf*, it requires further explanation as to whether it can be implemented and measured. Due to previous *waqf* studies did not capture the dynamic aspect of stakeholders, this study suggest Mitchell, Agle and Wood (MAW) model to explain the nature of *waqf* stakeholders. By combining MAW model with Hayes accountability, this paper comes up with the proposal regarding what kind information should be provided by *mutawalli* to various *waqf* stakeholders.

Keywords: *waqf* accounting, accountability, MAW model, Hayes accountability

1. Introduction

Perhaps, prior to the last decade there were not many academicians realized that *waqf* accounting deserved to be researched. *Waqf* subject was marginal and only attracted small number of students and researchers to investigate (Hoexter, 1998); hence it is not surprising why *waqf* literature, including *waqf* accounting was hardly found. The absent of *waqf* accounting might be

due to some reasons, but among other things is probably because many academicians thought that there was nothing to do with accounting for *waqf*. The way of *waqf* is simple (Rashid, 2008) hence accounting for *waqf* is regarded very basic besides it is not as complicated as accounting for Islamic banking and other Islamic financial institutions (Muhammad 2008). Clearly, the development of *waqf* institutions in the last decade is not as rapid as the development of Islamic banking. While Islamic banking has attracted many researchers and scholars to investigate, *waqf* issue was left behind (Ihsan and Shahul, 2007, Adnan, Maliah and Putri Nor Suad, 2007).

It has been witnessed in the last few years that the revitalization of *waqf* institution has been on agenda of Muslim communities around the world. Plenty international *waqf* conferences* which were held by Islamic Development Bank (IDB) through its subsidiary organ the Islamic Research and Training Institute (IRTI) indicates a growing interest and awareness in *waqf* institutions as one of the tools for community development (Cajee, 2008). Along with the revival of this historic institution, the attention to the call for *waqf* accounting had been emerged. The new and modern *waqf* management has put greater emphasize on the principles of accountability and transparency (Cajee, 2008). Thus, as part of good governance and best practices of *awqaf* institutions, accounting is believed can improve the accountability and transparency of the *mutawalli* (Adnan et al., 2007). Besides, accounting is a tool for *mutawalli* to discharge his accountability to many parties such as wāqif, *waqf* board, government and community in large (Ihsan and Shahul, 2007).

Studies on accounting practices in *waqf* institutions indicate there is diversity with regard to accounting and reporting of *waqf* (see Abdul Rahim et al., 1999; Siti Rokyah, 2005; Hisham, 2006 and Ihsan, 2007). Ihsan (2007) believes that the phenomenon of dissimilarity of accounting practices among *awqaf* institutions is due to the absence of accounting standards for *waqf*. In addition, Ihsan found that the perception of *mutawalli* regarding responsibility and accountability influence the way of *awqaf* institutions produce and disseminate accounting information. This is an interesting finding when Cordery and Morley (2005) also assert that the uncertainty over accounting practices in charitable sectors and other not-for profit organizations is not only due to the absence of accounting standards but also because the failure to establish a widely agreed definition of accountability for that sector.

In the *awqaf* context, although Hisham (2006) and Ihsan (2007) agree that Shahul's proposal of dual accountability is more appropriate for *waqf*, it requires further explanation as to

* Recently, there were a number of *waqf* conferences held by IRTI i.e. in Singapore (2007), Bangladesh (2007), South Africa (2007), Dubai (2008), Iran (2008) and some other countries.

whether it can be implemented and measured. Indeed, defining accountability is essential as it is deemed critical to regulatory functioning (Cordery and Morley, 2005). While Cutt and Murray (2000) state that accountability is a foundation of performance measurement, evaluation and reporting. Further, Lewis (2006) believes that accountability is a central theme in Islam since the accountability to Allāh and the community is paramount to a Muslim's faith. As asserted by Askary and Clarke (1997), the word *hisab* which is interrelated with account and accountable is repeated more than eight times in different verses in the Qur'an.

Therefore this paper aims at exploring the major themes that constitute the basis of the discussion on accountability in *awqaf* institutions. In doing this, the theoretical underpinnings and the existing empirical investigations relating to *waqf* accounting and accountability are examined. To begin the discussion, the development of *waqf* studies in general will be highlighted. It will be followed by the review of studies on *waqf* accounting in the recent years. The discourse about accountability construction in *awqaf* is presented before the conclusion.

2. *Waqf* studies as the key driver towards *awqaf* revitalization

Ironically, in the last one or two decades the non-Muslim scholars had paid more attention to *waqf* study than Muslim scholars. It is evidenced by the inclusion of *waqf* subject into the Master of Arts (M.A) and Bachelor of Arts (B.A) curricula in some universities which have specialization in Islamic history and culture (Hoexter, 1998). Some masters and PhD research on *waqf* were undertaken in western universities (see for example Deguilhem-Schoem, 1986; Christoffersen, 1997). Even the first international seminar on *waqf* which was held in Jerusalem in 1979 was organized by non-Muslim scholars.

At the mean time, *waqf* study in Muslim countries or majority Muslim population was not progressing very well. This is indicated by Rashid (2008) when he traced *waqf* literatures which had been produced during the last 30 years (from 1977 to 2007) in five countries i.e. India, Pakistan, Bangladesh, Malaysia, and Indonesia. The type of *waqf* materials being reviewed were books, published papers, PhD thesis, masters dissertations, newspapers/magazines, seminar proceedings, book reviews, reports and on-line materials. From his research Rashid found only 306 *waqf* materials had been produced during that time in the above-mentioned countries. Although this finding did not represent all Muslim countries, to some extent it implies that *waqf*

literatures are still limited and hardly found. As a matter of fact, publication could be one of the key drivers to ensure the success of revitalization (Cajee, 2007).

Actually the Islamic Development Bank had tried to promote the issue of *waqf* revitalization by sponsoring the international seminar on *waqf* in Jeddah, 1984. Unfortunately there was no subsequent conference after that for nearly twenty years. It was by the end of the twentieth century that the idea of *waqf* revival had become on the agenda of many Muslim countries (Cajee, 2008). There was awareness among Muslim societies that there is a call for promoting and advocating *waqf* matters through education, research, seminars and publication. Rashid (2008) was optimistic that the sign of *waqf* revival has been apparent all over Muslim countries.

The development of *waqf* literatures can be referred to Hoexter (1998) who divided it into three stages. In this paper, some studies will be mentioned by way of examples. The first step is considered as focusing on discovering the legal aspect of *waqf*. A study by Christoffersen (1997) is one of the examples of this stage whereby it provided framework and understanding of *waqf*. While the second stage focuses on socio economic impact of *waqf*, political influence on *waqf*, as well as the relationship between *waqf* and gender. Some instances for this stage are Sadeq (2002) who discussed the role of *waqf* in poverty alleviation; Pioppi (2004) who investigated the impact of political changes to the revival of *waqf* in Egypt and Doumani (1998) who scrutinized how political economy shaped perception of family *waqf* in Syria. Moreover, Hoexter points out that the next stage is pertaining to comparison between *waqf* and other model of charity in different culture and the sociological and cultural conception of *waqf*. Studies by Bastani and Esmailabadi (2008) and Eslami (2008) which compared *awqaf* and trust in England are examples of this category. This division into stages might be somewhat artificial but Hoexter argues that it can show the trends and innovation on *waqf* study. In fact some studies which are categorized into first stage continue to be discussed recently. For instance, Kahf (2007a) reviewed the fiqh issues relating to *waqf* revival, though previously he has discussed this issue extensively (see for example Kahf, 1999). Kahf (2007a) argues that this issue still needs to discuss as there is a call for revising the classical Fiqh in order to promote *waqf* revitalization. There are indeed some new issues on *waqf* which were not highlighted by Hoexter such as the integration of *waqf* into Islamic financial institutions (Ahmed, 2007; Pirasteh and Abdolmaleki, 2007; Becic, 2007; Kholid, Hassan and Sukmana, 2007; to mention but few) and modern management of *waqf* institutions (for example Cajee, 2007; Ahmad Hidayat, 2007; Sadique, 2008 and Rashid, 2008).

There is also a trend to conduct country case study for instance Deguilhem (2003) in Syria, Pioppi (2004) in Egypt, Abdel Mohsin (2005) in Sudan, Maina (2007) in Kenya, Shamsiah (2008) in Singapore and many others. Generally speaking, *waqf* literatures are continuously increased along with the upsurge of interest in *awqaf* issues. This is positive improvement as Rashid (2008) points out that the publication of *waqf* literature is essential to help promoting *awqaf* revitalization in the entire Muslim society.

Some authors (for example Marsoof, 2004; Ihsan, Ayedh and Shahul, 2006; Cajee 2007, 2008) have asserted that the development of *waqf* in the future will greatly depend on the good governance of this institution. Therefore the attention to *waqf* accounting had just emerged as it is believed that accounting can improve the best practices in *waqf* institutions. The following section will specifically review the development of study on *waqf* accounting in the recent years.

3. The development of research on *waqf* accounting

The attention to study *waqf* accounting might be emerged recently, but accounting practice in *awqaf* institutions is not a new idea at all. Rather, it had been practiced extensively in managing cash *waqf* during the Ottoman Empire. This evidence was discovered by Yayla (2007) who examined the accounting practice in Sultan Suleyman *Waqf* of the Ottoman Empire. By scrutinizing Ottoman's archives, he found that the book keeping process had been carried out at that time. Although the preparation of recording based on initiative and consciousness of *mutawalli*, it could prevent the malfunction and misuse of *waqf* asset. Further more, Yayla discovered that accounting record was used to measure the performance of *waqf* by the Sultan's commissioners. This finding is supported by Toruman and Tuncsiper (2007) who have carried out a similar study i.e. accounting practices for cash *waqf* in the Ottomans. Toruman and Tuncsiper discovered the fact that accounting practice on *waqf* had been carried out from 1490 to 1928. It was single entry in nature, but it provided all information regarding cash *waqf* management such as annual income of properties, expenditures by day, month and year and information about the increment of *waqf* assets of the year. In short, these two studies have proven that accounting was used as a controlling devise for *waqf* management during the Ottoman Empire.

As a matter of fact, there is no extensive study on current practice of *waqf* accounting has been conducted. Literatures show that there are three main themes emerged concerning *waqf*

accounting. Firstly, accounting for *waqf* is essential as a tool for better practice corporate governance of *waqf* institutions. Therefore, there is a call for setting up accounting and auditing standards for *awqaf* (see for example Marsoof, 2004; Adnan, 2005; Ihsan, Ayedh and Shahul, 2006; Cajee 2007, 2008; Pirasteh and Abdolmaleki, 2007; Rashid, 2007; Hasan, 2007). Secondly, accounting practices vary among *waqf* institutions; however the common phenomenon is the absence of accounting standards for *waqf* (Abdul Rahim et al., 1999; Siti Rokyah, 2005; Hisham, 2006 and Ihsan, 2007). Thirdly, due to *waqf* accounting standards has not been established, it is necessary to learn the existing similar standard such as Statement of Recommended Practice (SORP 2005) for charity or AAOIFI's Statements of Financial Accounting to develop *waqf* accounting concepts and standards (Ihsan and Shahul, 2007; and Adnan et al., 2007).

In the first category, accounting for *waqf* is perceived important to improve the accountability and transparency of *waqf* institutions. Marsoof (2004) urges the improvement in accounting procedures since it is one significant element for the betterment of *waqf* institutions. This idea comes up from his study on *waqf* administration in Srilangka where he found the management of *waqf* has not been optimized. Therefore, he suggested for developing accounting procedures and standards for *waqf*. In line with Marsoof, Adnan (2005) agrees to develop *waqf* accounting standards. He provides two alternative models of *waqf* accounting where *waqf* can be seen as social organization or *waqf* is regarded as an organization which tries to maximize its resources through investment activities. If *waqf* is seen under the former assumption, thus, accounting for nonprofit organizations will be sufficient to be adopted. However, if *waqf* is considered under the latest assumption, accounting for commercial organizations can be adopted. While, Ihsan et al., (2006) scrutinize the issues of transparency and accountability in *waqf* institutions among Muslim countries. Based on review on previous studies, they found that there is lack of accountability and transparency in *waqf* assets management. There was also mismanagement by the *mutawalli* in administering *waqf*. By examining the proposal from the Charity Commission in the UK, they found four main ideas from the Charity Commission which considered can be applied for the improvement of *waqf* institutions, namely internal financial control, transparency and reporting, management of funds and code of Good Governance. Besides, there is a need concerning legal reformation of *waqf*, whereby the government of Muslim countries should consider re-evaluating *waqf* acts. Studies by Cajee 2007, 2008; Pirasteh and Abdolmaleki, 2007; Rashid, 2007; Hasan, 2007 did not specifically address to accounting

issues, rather they aimed to review some factors which are believed could encourage the revival of *awqaf*. However, these authors are in the same view that accounting for *waqf* is needed as it is part of best practice and therefore can improve the revitalization process of *awqaf*.

The second theme is accounting practices vary among *awqaf* institutions. Actually this issue arises from the studies on *waqf* in Malaysia and Indonesia. A study by Abdul Rahim et al., (1999) was a preliminary one which explored the accounting as well as administration practices among State Islamic Religious Council (SIRC) in Malaysia. By reviewing *waqf* literature and conducting telephone interviews with the officers of selected SIRC in Malaysia, this study discovered that there was no detailed information about *waqf* assets. In addition, this study found that there was unsystematic management as well as lack of accounting system for *waqf* assets, where no written procedure to record *waqf* financial transactions. Abdul Rahim et al., perceive that this phenomenon occurred because there was no federal authority to coordinate all *waqf* in Malaysia. Thus, for the improvement of *waqf* management, Abdul Rahim et al., (1999) suggest the establishment of *waqf* department which will coordinate *waqf* in Malaysia. In addition to management improvement, Abdul Rahim et al., also recommended the improvement of accounting procedures to ensure the internal control of *waqf* administration.

A study by Siti Rokyah (2005) can be seen as the extension of the above study where it examined the status of financial reports and determined the level of *waqf* disclosure by the State Islamic Religious Councils (SIRC) in Malaysia. Siti Rokyah also scrutinized financial procedures adopted and the relationship between financial procedures and *waqf* accounting practices. She used mailed questionnaires to gather the data, where the targeted groups of respondents were those who were involved directly in the administrative and financial matters of *waqf*, accountants or assistant accountants, accountant executives, administrative officers of *waqf*, financial officers and *waqf* clerks. In addition to mail survey, this study also used secondary data from the SIRC's annual report to analyze the level of *waqf* disclosure.

Siti Rokyah found that SIRC vary in terms of the status on producing the latest annual report. Majority of SIRC had overdue and outdated financial reporting[†]. Besides, most of SIRC showed low level of disclosure in their annual report. Siti Rokyah found the indication that those SIRC that showed higher level of disclosure have qualified accounting staff in handling the accounts and reports. In addition to this, this study also indicates that the SIRC that produced

[†] Siti Rokyah had conducted her study in 2004, while she found that the latest annual reports produced by SIRC were majority for the year 2000 and 2001. The rest vary from 1994 to 1997.

the latest annual reports will show higher level of disclosure than the SIRC's which have outdated annual reports.

Another finding from this study showed that there was no specific guideline in preparing and maintaining *waqf* report. Besides, majority of SIRC's did not provide separate account for *waqf*. Thus, no information could be found regarding general *waqf* and specific *waqf* assets. Therefore, Siti Rokyah (2005) comes up with the suggestion of having proper guideline of manual in maintaining *waqf* assets. Besides reporting guideline, Siti Rokyah also suggests the acquiring of experienced accountants, since they will be able to help SIRC's in maintaining *waqf* accounts and reporting.

The study by Siti Rokyah might give a brief picture of *waqf* reporting practices in Malaysia. However, since this study was mainly based on survey, it could not capture the real practice of *waqf* accounting in those SIRC's deeply. Smith (2003) criticizes that a survey study is as poor man's experience. Therefore, Hisham (2006) undertook another study on *waqf* accounting based on case study in the Federal Territory SIRC Malaysia. Hisham claimed that his study was different with Siti Rokyah's where his study was exploratory and descriptive, while the former study was more quantitative in nature. Furthermore, Hisham's study aimed to get better understanding with regard to *waqf* administrative and management which focused on accounting practices whereas Siti Rokyah's focused on financial reporting practices. Hisham conducted this study by reviewing the accounting practices in the Federal Territory SIRC and comparing *waqf* accounting with Statement of Recommended Practices for charitable (SORP 2005) in the UK. He combined interviews, observations and document reviews in his study to collect data. From his study, Hisham found that there was some improvement of *waqf* accounting in terms of record-keeping at Federal Territory SIRC. However, there was still no specific financial statement for *waqf* as well as no separation between different types of *waqf* was made. Therefore, for an improvement he suggested some accounting practices for *waqf* based on SORP 2005.

In order to get better understanding with regard to accounting and management of *waqf*, Ihsan (2007) undertook another case study in two Indonesian *waqf* institutions. Although to some extent this study replicated Hisham's study, it relied on more than one case. Hence, Ihsan believes that through a multiple case design he will be able to show the relevance or applicability of findings to other settings. In fact, this study was claimed as the first attempt that tried to scrutiny the accounting aspect of *waqf* in Indonesia.

Ihsan used various methods to collect data i.e. interview, document review and direct observations. He believed that due to the fact that there is no single source of data that has complete advantage than others; therefore, using various sources of data will be complementary. In this study, Ihsan had chosen three cases to be investigated, namely, Dompot Dhuafa (DD), Badan Wakaf Universitas Islam Indonesia (BW UII) and Badan Wakaf Pondok Pesantren Modern Gontor. Unfortunately the last refused to be scrutinized.

The main finding of this study shows that there is different character and achievement of *waqf* management and accounting in DD and BW UII. This study also gives evidence that the two *waqf* institutions are different in terms of public accountability and transparency. Ihsan believed that the phenomenon of dissimilarity of accounting practices between DD and BW UII is due to the absence of accounting standards for *waqf* in Indonesia. It is therefore, Ihsan recommended to set up accounting standards and code of good corporate governance for *waqf* as it can improve the accountability of *mutawalli* in managing *waqf*.

There is common phenomenon from the above review i.e. the absence of accounting standards for *waqf*. Thus, due to *waqf* accounting standards have not been established, Ihsan and Shahul (2007) opine it is necessary to learn the existing similar standard such as Statement of Recommended Practice (SORP 2005) for charity. Ihsan and Shahul take the view that the structure of SORP 2005 is sophisticated and could encourages the trustee of charity to be more accountable. They suggest developing *waqf* accounting standards based on SORP model with some modification. Adnan et al., (2007) agree with this idea. In addition to learn SORP 2005, Adnan et al., propose an idea to investigate AAOIFI's Statements of Financial Accounting to develop accounting conceptual framework and standards for *awqaf* institutions.

The above discussion gives insight that accounting for *waqf* is important for the improvement of *waqf* management. Some authors note that accounting is a means to discharge *mutawalli*'s accountability to many parties (Hisham, 2006; Ihsan and Shahul, 2007; Adnan et al., 2007). This is in line with Lewis (2006) who asserts that one of the objectives of accounting system is to discharge accountability. Nevertheless, the phenomenon of dissimilarity of *waqf* accounting could be due to the different understanding of accountability by *mutawalli*. If there is no clear consensus about accountability, thus the means to deliver it will vary (Sinclair, 1995). To remedy this, there should be a widely agreed definition about accountability so the user's needs could be determined (Cordery and Baskerville, 2005). Cutt and Murray (2000) agree that defining accountability is essential as a basis of performance measurement, evaluation and

reporting. In short, there is a desire to assert what accountability in *waqf* should be about. The following section will therefore discuss the construction of accountability in *awqaf* institutions. Some theoretical underpinning relating to accountability in non profit organizations and public sectors will be reviewed as the basis of discussion.

4. The theoretical framework of *waqf* accountability

4.1. Defining accountability

One could be pondered, why defining the meaning of accountability in *awqaf* is very important? Sinclair (1995) says that nobody will argue with the need for accountability, however, it has discipline-specific meanings whereby many parties such as auditors, political scientists, philosophers, have their own definition about accountability. In short, how to define accountability will depend on the ideologies, motives, and languages. This discussion will not lead to the standardization of accountability concept in *awqaf*, but at least there should be a widely agreed definition among academicians. It should be noted that the accountability discussed here is limited to *mutawalli* accountability as it is part of managerial issues.

In the charity context, Cordery and Morley (2005) proposed the charity accountability model as they assume that this sector has specific characteristic compared with business entity. In line with this, Cutt and Murray (2000) agree that accountability framework in non-profit organizations should be defined as these institutions have a broad range of constituencies. Likewise, *awqaf* is not only charitable and non-profit in nature, but also located in religious setting. It is therefore, defining accountability will be crucial as the basis of reporting and performance measurement.

In the new model of administrative reform, the accountability is heightened through managerial control (Sinclair 1995). Hence, from managerial perspective Sinclair defines accountability as the requirement to those with delegated authority to be answerable for producing outputs or the use of resources to achieve certain ends.

While, Cutt and Murray (2000) opine that the accountability is: "[t]he obligation to render an account for a responsibility that has been conferred". Furthermore, they believe that formal definition of accountability presumes the existence of at least two parties, one who allocates responsibility and one who accepts it with undertaking to report on, account for, the manner in which it has been discharged. Similar with above definition, Gray et al., (1997) has summarized

the definition of accountability as “[t]he duty to provide account of the actions for which one is held responsible.

The above definitions of accountability (hereafter is referred to as conventional accountability) seem appropriate for *awqaf* since *waqf* is exposed to managerial issues. Nevertheless, these definitions have some weaknesses and fail to demonstrate accountability in Islamic perspective for some reasons. Firstly, according to Al-Safi (1992) that man-made definition of accountability is aimed to establish a certain material status for the individual and community. Indeed, accountability in Islam (*taklif*) can be seen as everyone is accountable for their actions on the Day of Judgment.

Similarly, Haniffa (2001) takes the view that the ultimate accountability in Islam is to Allāh since all deeds will be counted in the hereafter. Haniffa’s justification is the following verse of the Holly Qur’an: “To Allāh belongs all that is in the heavens and on earth. Whether you show what is in your minds or conceal it, Allāh will call you to account for it” (Qur’an, Al-Baqarah 2:284).

The second reason why conventional accountability might not be appropriate is because in the western society, fulfilling accountability is regarded as nothing to do with religious matters. Lehman (2004) analyses that the current western societies have neglected the religious dimension in their social systems. While in Islam, rendering an account to discharge accountability is identified as part of *ibadah* (servitude to Allāh) and *amal saleh* (virtuous deeds) in attaining *al-Falah* (benefit for the people in this world and the hereafter (Haniffa, 2001).

Due to the conventional accountability does not show accountability to Allāh, Shahul (2000) therefore, comes up with the proposal of dual accountability where as Allāh’s *khalifah*,[‡] human beings are being accountable for all resources entrusted; besides they should fulfill any contract made among them. Shahul named it Islamic accountability. This kind of accountability is the most appropriate for *waqf* not only because the nature of *waqf* is based on religious motivation but also it involves the interest of ummah (public). Hisham (2006) and Ihsan (2007) agree the accountability of *mutawalli* can be seen as dual accountability, although it needs further elaboration as to whether it can be manifested. The manifestation of *waqf* accountability will be discussed in the following section.

4.2. The manifestation of *waqf* accountability

[‡] Khalifah : vicegerent

Before discussing how the manifestation of *waqf* accountability is, the proposed *waqf* accountability by Hisham (2006) and Ihsan (2007) will be presented. These two studies are chosen because as far as *waqf* study is concerned, there is no other study which discuss *waqf* accountability model. The *waqf* accountability model proposed either by Hisham (2006) or Ihsan (2007) are very much similar, although Ihsan claimed that his is the extension of Hisham's work. Originally, this model was developed from Shahul's proposal of dual accountability (2000). The latest model of *waqf* accountability is presented below:

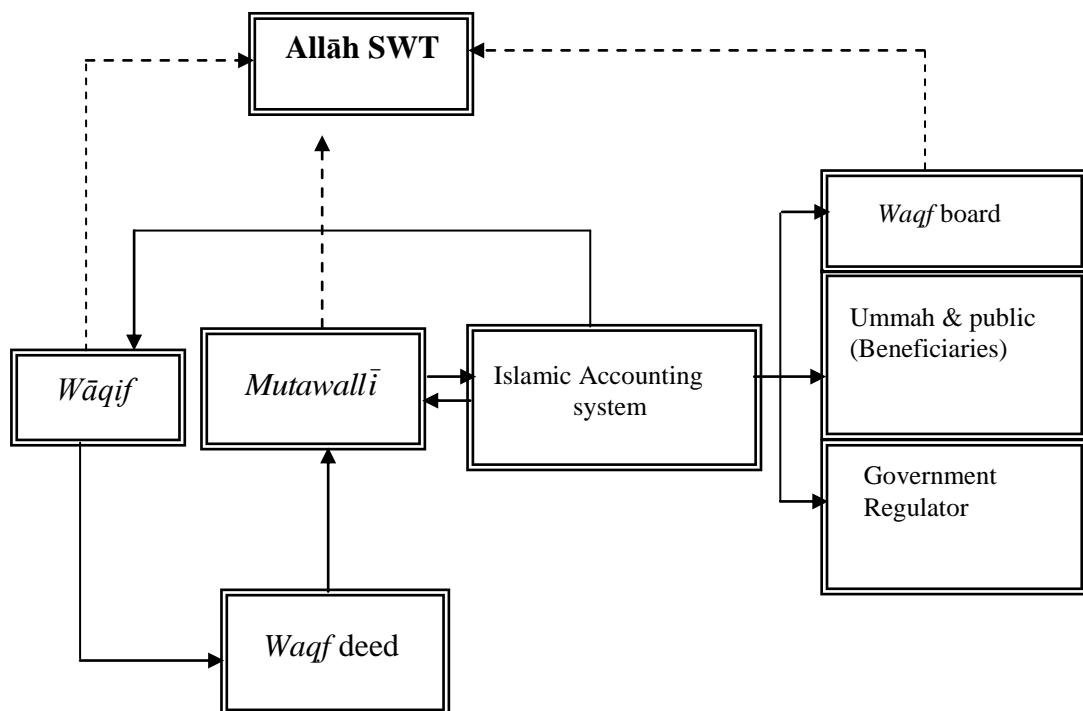


Figure 1. The *waqf* accountability Model (Source Ihsan: 2007)

Given the above definition of dual accountability in *waqf*, now there is a question to answer: how to discharge this accountability? Previously, it has been mentioned that *waqf* is a religious deed besides it is meant for public benefit. Therefore in the first place, all parties; *mutawallis*, *wāqif*, *waqf* board and regulators should discharge their accountability to Allāh. This accountability is considered as the primary accountability (*hablun min Allāh*). In the above figure, it is represented by dashed arrows which means transcendent, as it cannot be perceived through the senses.

Although this kind of accountability is transcendent, Shahul (2000) argues it can be made visible through the fulfillment of all Allāh's commands and avoidance of His prohibitions (which is guided by Qur'an and hadist). For instance, in managing *waqf* assets, *mutawalli* cannot violate

shariah rules. At the same time, *mutawalli* should show his accountability in fulfilling *waqf* objective as wāqif wishes. Besides, *mutawalli* has to ensure that *waqf* will contribute to the betterment of Muslim society.

The metaphysical nature of accountability to Allāh does not imply that it has nothing to do with reporting. Cutt and Murray (2000) state that, in nature, accountability manifests itself as information through management information systems and associated methods of analysis and evaluation. It is true that all deeds are recorded by the Angels and account to Allāh (Al-Qu'ran Qaf 50:17-18). But the accountability to Allāh (*Hablun min Allāh*) is interrelated accountability to human beings (*hablun min An-nas*) (Hassan, 1995 as quoted by Abdul Rahim, 2003). Therefore, in this sense a clear reporting from *mutawalli* will enable the user to see how compliant he is to the shariah rules in managing the *waqf* assets. This is in line with Cajee (2007) who proposes the idea of providing shariah advisory services in order to ensure the shariah compliance of *waqf* management. For further development he suggests the call for shariah auditing to make sure the correct application of *waqf* assets.

In another place, *mutawalli* should be responsible to various stakeholders. Defining stakeholders for nonprofit organizations might be elusive as they involve many audiences. Hisham (2006) and Ihsan (2007) identify the stakeholders of *waqf* as wāqif, *waqf* board, regulator, beneficiaries, and community in large. The above-mentioned stakeholders are classified as major stakeholders by Cajee (2007). In addition he points out *waqf* stakeholders could be wider whereby it involves NGOs, politicians, business community, academics and Islamic Financial Services[§]. In short, *waqf* stakeholders are multilateral and dynamic.

With regard to the above *waqf* accountability, Ihsan (2007) explains that accountability to stakeholders could be discharged through Islamic accounting system. It means that *mutawalli* will provide report to wāqif, *waqf* board, beneficiaries and community. Hisham (2006) takes the same view with Ihsan. However, both Hisham (2006) and Ihsan (2007) did not explain what kind information should be provided by *mutawalli* besides to whom the priority should be given. It is important to identify the interest of different parties in the stakeholders group so *mutawalli* can provide relevant information to them. Cordery and Morley (2005) recognize that the identification of stakeholder's interest will help improving accounting standards or such regulations.

[§] There are two types of *waqf* i.e. *waqf ahli* (family *waqf*) and *waqf khairi* (public *waqf*), but the discussion here is limited to *waqf khairi*. The context of *waqf* stakeholders mentioned might not be appropriate for *waqf ahli* as it is only involved several people in certain family.

In the widest sense, accountability is more than accounting, focusing on the information needs of users (Jones and Pendlebury, 1996 in Connolly and Hyndman, 2004). Therefore, with regard to information should be provided by *mutawalli*, it would be relevant to quote Hayes (as cited in Cordery and Morley, 2005) who classifies the types of accountability in the charity sectors to the stakeholders as follows:

- ♦ Fiscal accountability i.e. to make sure that the money has been spent as agreed and according to the appropriate rules
- ♦ Process accountability that is to ensure that proper procedures has been followed to provide value for money
- ♦ Program accountability i.e. to ensure that institution is effective in achieving its objective
- ♦ Accountability for priorities i.e. fulfilling user needs appropriately.

Since *waqf* has some similarities with charitable organization^{**}, we can adapt the above classification to determine what kind information should be provided by *mutawalli*. It should be noted that discharging accountability should consider both quantitative and qualitative reporting (Cordery and Morley, 2005). Quantitative reporting can be in terms of financial performance of *waqf* institution, i.e. how much is the cost expended or how much money is being invested to develop *waqf* assets. Whereas qualitative reporting is non-financial information which inform the users whether any objectives are achieved and how is the progress of *waqf* programs.

Further, we need to elaborate the issue concerning the urgency of stakeholder's demand on certain information. This discussion does not intend to argue that *mutawalli* should pay attention to all stakeholders; rather *mutawallis* have to pay certain kinds of attention to certain kinds of stakeholders. It is predicted that all stakeholders of *awqaf* do not have the same power to pressure *mutawalli*. For instance, the beneficiaries of *waqf* will be difficult to push *mutawalli* to provide financial information, due to their lack of power to do so. Beneficiaries may have expectation on moral and honesty of *mutawalli*, but that alone, leave them as non-dominant stakeholders. However, regulator and *waqf* board most probably can impose their will to *mutawalli*. Nevertheless, if regulator acts as the beneficiaries, they will be more powerful to coerce *mutawalli*.

^{**} The similarities are in terms of charitable activities and nonprofit organization

In the following section we will discuss the stakeholder salience-the degree to which managers give priority to competing stakeholder claims- in its applicability to explain the multiple demands of *waqf* stakeholders.

4.3. Stakeholder theory and the salient nature of *waqf* stakeholders

Traditionally, agency theory is commonly used to explain the governance in the context of principal-agent relationship. The basic assumptions of this theory is both principal and agent try to maximize their return. The financial suppliers assure themselves of getting return on their investment while the manager is working to get incentives. However, sometimes the interest of agent principal is not aligned, thus there should be monitoring strategies to mitigate the agency problems (Subramaniam, 2006). Although this theory is extensively cited in explaining the governance and accountability of manager, Hyndman and McDonnel (2009) criticize that agency theory is not appropriate for nonprofit organizations specifically charitable sectors. This is simply because both the contributors and managers do not expect any return from their donation and their effort in managing the organization. Hyndman and McDonnel (2009) explain that in the charitable and not-for profit organizations the term governance may connote a wider understanding which involves accountability to various stakeholders.

Therefore Freeman (1984) is the most widely cited to explain who and what really counts as the stakeholders of the organization. He defined stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. This theory-which is well-known as stakeholder theory- is conceived against the shareholder theory and neoclassical economic theory (O’Higgins and Morgan, 2006; Alam, 2006). Stakeholder theory is claimed more accurately in describing the behavior of organization by focusing on relationship with stakeholders (Donaldson and Preston, 1995). Some attempts have tried to expand Freeman’s work in order to identify the power differences and priority among the stakeholder groups (for example Hill and Jones, 1992; Burton and Dunn, 1996; Mitchell et al, 1997). Among other things, Mitchell et al’s, (1997) work is considered as the comprehensive model in prioritizing the stakeholders’ interest. It is also categorized as one of the instrumental branches of the stakeholder theory (Alam, 2006).

Mitchell et al., (1997) propose the qualitative classes of stakeholders which can be identified by the following attributes: 1) stakeholder’s power to influence firm, 2) the legitimacy

of stakeholder's relationship with the firm, 3) the urgency of the stakeholder's claim on the firm. Based on the above attributes, Mitchell et al., (1997) propose seven types of stakeholders: three possessing only one attribute, three possessing two attributes and one possessing all three attributes. The rationale behind stakeholder salience model is management has limited time and resources to provide information to various stakeholders. Management therefore has to focus on stakeholder's needs. The types of stakeholders based on Mitchell et al's, proposal (hereafter is referred to as MAW) is presented in the following figure:

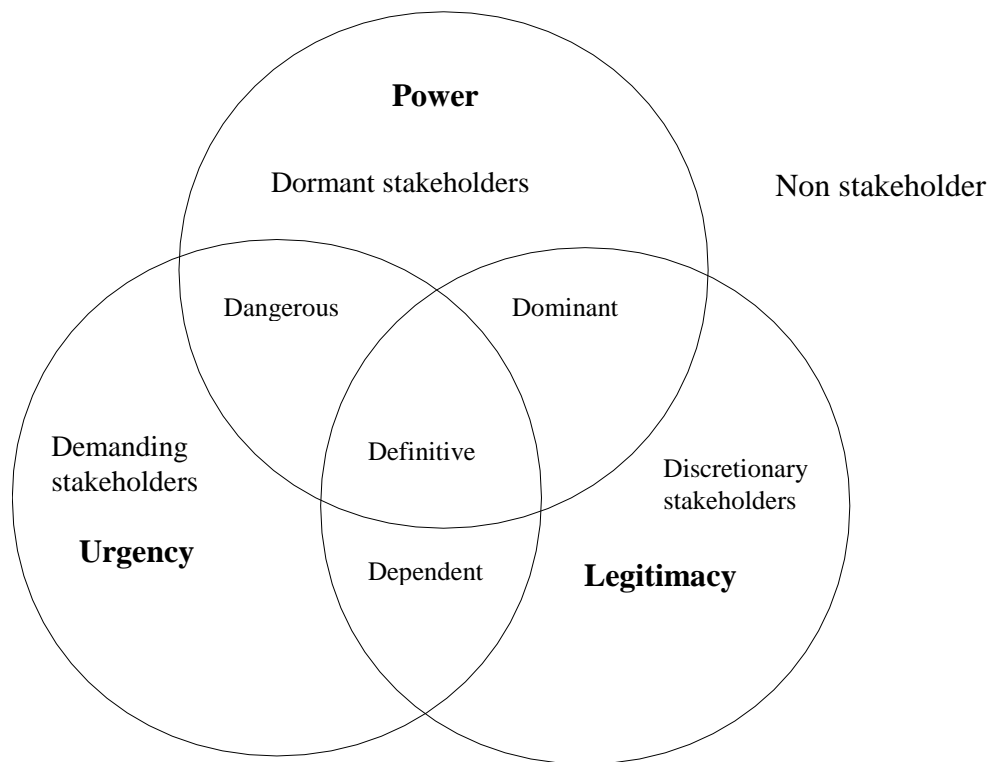


Figure 2: Stakeholder typology (Source: Mitchell, et al., 1997)

Mitchell et al., (1997) assume that the salience of particular stakeholders will be low if only one attribute is present, moderate if two attributes are present and high if all attributes are present. Based on the figure above, Mitchell et al., classify stakeholders into three general classes. Firstly, latent stakeholders are those who possessing only one of the three attributes. It includes dormant, discretionary and demanding stakeholders. Secondly, expectant stakeholders are those who are possessing two attributes and include dominant, dependent and dangerous stakeholders. Definitive stakeholders are those who possessing all three attributes. Lastly, those who possessing none of these attributes are considered as non stakeholder. Cordery and Morley

(2005) agree that MAW model can be a good instrument for assisting management in identifying relationships of accountability in the charitable sectors. In this paper, the classification of *waqf* stakeholders is adapted from Cordery and Morley (2005).

The first category is latent stakeholders which include dormant, discretionary and demanding stakeholders. Dormant stakeholders are those who possessing power to impose their will to organization, but by not having a legitimate relationship or urgent claim. Normally, dormant stakeholders have little or no interaction with the organization. In the *waqf* context, the samples of member of this class are *waqf* board and government. There could be criticism with regard to the involvement government in *waqf*, but Rashid (2008) limits the government's role in terms of regulator instead of manager. In addition, Shatzmiller (2001) points out that the power given to the regulatory body should be limited by the law.

While, those who possess the attribute of legitimacy are classified as discretionary stakeholders. The potential wāqif and donors are the instance for this category as they have no power to influence organization and no urgent claims. The third class in latent stakeholders is demanding stakeholders. Mitchell et al., (1997) explain that demanding stakeholders are those who are with urgent claims but having neither power nor legitimacy. They are considered as the “mosquitoes buzzing in the ears”. According to Cordery and Morley (2005) the press is probably can represent the member of this class.

When the latent stakeholders acquire another attribute, they will move to expectant stakeholders which classify under dominant, dependent and dangerous stakeholders. Dominant stakeholders possess both power and legitimacy. They have right to claim and have ability to act on this claim. Existing wāqif is the representative of dominant stakeholders. The stakeholders who have legitimate claims, but lack power is considered as dependent stakeholders as they depend upon others. The sample of dependent stakeholders is beneficiaries of *awqaf*. When stakeholders are characterized by urgency and power, they fall into dangerous category of stakeholders. Cordery and Morley (2005) give social justice lobbyist as the sample of member of this class. Although Mitchell et al., (1997) note that the notion of dangerous is somewhat uncomfortable, failure to identify dangerous stakeholders would result in a missed opportunities to mitigate the potential danger.

When all three attributes is present in one group of stakeholders, they will be classified as definitive stakeholders. Perhaps, *mutawalli* and staff are in this category. It should be noted that this classification and example are not fixed. Baskerville-Morley (2004) believes that the

membership of one class could be adaptive and dynamic. This is in line with Mitchell et al., (1997) when they noted that any expectant stakeholder could become a definitive one by acquiring the missing attribute. An empirical work by Magness (2008) supports the MAW model whereby stakeholders is not static, rather dynamic and can move into another class of stakeholder.

Although MAW proposal was originally address to commercial entity, Cordery and Morley (2005) had applied this model to charitable sectors. Similarly, in this paper we will apply MAW proposal by combining it with Hayes proposal of accountability.

4.4. The combination of Hayes accountability and MAW model

Having discussed Hayes accountability and the salience of stakeholders based on Mitchell et al., (1997) proposal; we are now turning into discussing how the two proposals could be combined. Cordery and Morley (2005) have used both Hayes and MAW to explain charity accountability. In the author's opinion, the use of Hayes and MAW is possible to explain *mutawalli* accountability to *waqf* stakeholders. It does not mean to argue the previous discussion regarding dual accountability. Rather it intends to make further explanation how *mutawalli* accountability should be discharge to various parties. The following description will illustrate the need of *waqf* stakeholder for certain information. It should be noted that the membership of stakeholder in the class is not fixed, rather they can move and change depend on situation and time

As mentioned early, *mutawalli* and staff are considered as the definitive stakeholders. Keating and Frumklin (2003) point out that the growing interest in professionalization of non profit sectors has placed the staff in the centre of accountability equation. Therefore, as the definitive stakeholder, *mutawalli* and the staff will need all information pertaining to *waqf* administration. Information about fiscal, process, program and priorities will give a visibility to the resources, activities and achievements, thus enabling informed discussions and decisions for the *mutawalli*.

Although there is severe criticism about government intervention on *waqf*, almost all Muslim governments now involve in controlling *awqaf* management (Kahf, 2007b). Kahf notes that the involvement of government in *waqf* management never been mentioned in any book of *fatawa*. Rashid (2008) agrees that the government should not be appointed to manage *waqf* assets as most of government managements are bureaucratic and even sometimes inefficient. Thus, Rashid proposed that the government involvement should be limited in terms of

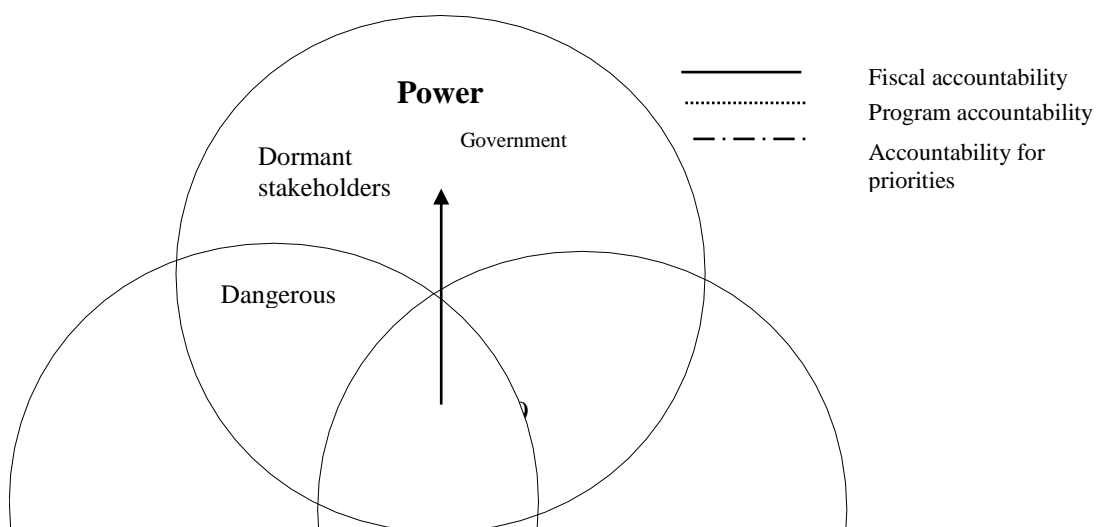
monitoring *awqaf* through national waqf board. It is therefore, as the dormant stakeholders, the government and regulatory body may require fiscal information (Keating and Frumklin, 2003). Lee (2004) opines that providing financial reporting to government has become compulsory for non profit organizations as part of their external accountability. This information will help *waqf* regulatory body in monitoring *awqaf* institutions.

In the charity context Cordery and Morley (2005) mention that donors will normally ask for financial information from the trustee. Similarly, the information about fiscal is also required by wāqif to assess the performance of *mutawalli* in managing *waqf*. However, in waqf context, financial per se is not enough. Mutawalli needs to inform wāqif whether he/she has fulfilled the objective of *waqf* as the wāqif wishes. Therefore, information about program is also important for wāqif. The *Malikis* and others said that the proprietary of *waqf* assets remain in wāqif (Kahf, 2007b). Hence, wāqifs have the right to replace *mutawalli* if they think that *mutawalli*'s performance is not as expected. In other words, wāqifs could be a definitive stakeholder if they consider it is “urgent” to do so.

While dangerous, demanding and discretionary stakeholders who are represented by social justice lobbyist, press and potential wāqif respectively, might claim the information about program i.e. how effective *waqf* in achieving the result intended. Keating and Frumklin (2003) note that the stakeholders of non profit organizations normally need such program reporting to make decision about their support and participation on the organizations in the future. Other information such as financial, process and priority could be less relevant for them. Most of charitable organizations stakeholder indeed perceive that non-financial information is important in assessing output (Hyndman, 1990)

The last category but not least is beneficiaries who are categorized as dependent stakeholders. They have lack of power (Cordery and Morley (2005); hence it is difficult for them to coerce *mutawalli* to provide complete information for them. Their concern is more to the fulfillment their interest on *waqf*.

The above scenario can be drawn into the following figure:



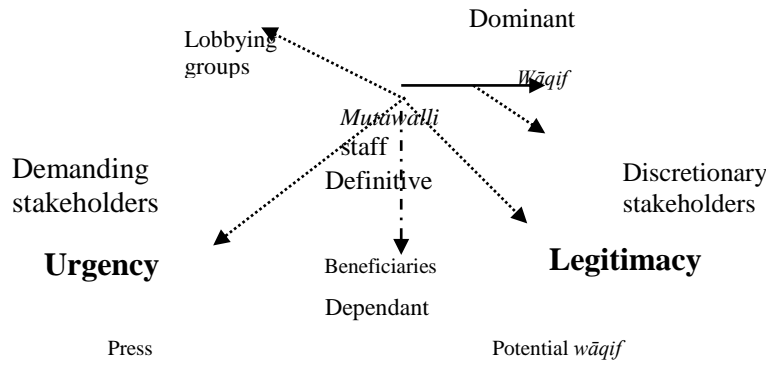


Figure 3: Application of Hayes accountability to MAW model

The information about fiscal, program and process are discharged in formal manner. For instance, fiscal information is provided in the financial report; program information is reported in *mutawalli* report; while process will be informed through performance reporting. Whereas, information about priority can be more informal and unstructured compared to the former information. Yet, Cordery and Morley (2005) note that the informal and unstructured information are more likely to be provided in a culture with high levels of trust.

5. Concluding remarks

As earlier discussion demonstrates, the issue of *waqf* revitalization has been on agenda of Muslim communities. Along with this, the attention to *waqf* accounting had just emerged as it is believed that accounting can improve the best practices in *waqf* institutions. Review on *waqf* studies indicates the common phenomenon i.e. the absence of accounting standards for *waqf*. Nevertheless, the phenomenon of dissimilarity of *waqf* accounting could be due to there is no clear consensus about accountability, thus the means to deliver it will vary.

In this paper we agree that Islamic dual accountability is the most appropriate model to explain accountability in *awqaf* sectors. In the first place, *mutawalli* is accountable to Allāh SWT. This kind of accountability is transcendent in nature, yet it can be made visible through the fulfillment of all Allāh's commands and avoidance of His prohibitions. In another place, *mutawalli* should discharge his accountability to various parties such as *wāqif*, *waqf* board, government and beneficiaries. Due to previous *waqf* studies did not capture the dynamic aspect of stakeholders, this study suggest MAW model to explain the nature of stakeholders in the

respective classes. By combining MAW model with Hayes accountability, this paper comes up with the proposal regarding what kind information should be provided by *mutawalli* to various *waqf* stakeholders.

This paper has some research implications. Firstly, it needs empirical evidence to justify the stakeholder salience in *waqf* context. Secondly, since this paper suggests adapting Hayes accountability, it requires further scrutiny to what extent *waqf* stakeholders need certain information. Scrutinizing stakeholder salience and identifying the user needs will help *mutawalli* in administering *awqaf* effectively. Lastly, perhaps cross-country study will enrich *waqf* literature as none of previous studies did comparative study. In addition, it will enable Muslim countries to learn each other in order to improve *waqf* administration.

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